

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

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E.O. 11652: N/A

TAGS: EAGR, EEC, ETRD, EG

SUBJECT: EC/EGYPT COMMODITY SUPPLY AGREEMENT

REF: A) STATE 182996

B) EC BRUSSELS 6979

1. SUMMARY: THE PROPOSED EC/EGYPT COMMODITY SUPPLY AGREEMENT HAS DRAWN SUBSTANTIAL CRITICISM WITHIN THE COMMISSION. IT WILL BE SUBJECT TO MEMBER STATE REVIEW AND APPRAISAL; MEANWHILE THE COMMISSION IS LAUNCHING AN INVESTIGATION INTO THE MERITS OF LONG-TERM SUPPLY CONTRACTS. END SUMMARY.

2. REF A, WHICH REQUESTED A REPORT ON THE EC-EGYPTIAN SUPPLY AGREEMENT, AND REF B, WHICH PROVIDED SAME BASED ON COMMISSION AND OTHER SOURCES, OBVIOUSLY CROSSED. SINCE REF B WAS DRAFTED, LESLIE FIELDING, THE DIRECTOR WITHIN THE EC COMMISSION'S DIRECTORATE GENERAL FOR EXTERNAL RELATIONS (DG-1) WHO IS RESPONSIBLE FOR AGRICULTURAL TRADE POLICY, HAS GIVEN US FURTHER DETAILS ON THE ITRA-COMMISSION ARGUMENTS OVER THE PROPOSED EC/EGYPT AGREEMENT.

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3. FIELDING SAYS THAT LARDINOIS AND OFFICIALS OF THE DIRECTORATE

GENERAL FOR AGRICULTURE (DG-IV) HAD BEEN ALLOWED TO "GO TOO FAR" WITH THE EGYPTIANS WITHOUT BEING SUBJECTED TO QUESTIONING BY OTHER ELEMENTS WITHIN THE COMMISSION. HOWEVER, WHEN THE PROPOSED AGREEMENT WAS DISCUSSED IN THE COMMISSION SHORTLY BEFORE RABOT AND WIJNMAALEN'S TRIP TO CAIRO (REFTEL B), THE DG-VI PROPOSALS WERE CRITICIZED ON THE FOLLOWING GROUNDS:

(A) THERE WAS NO CLEAR PICTURE OF THE COSTS INVOLVED. WERE THESE SALES TO BE SUBSIDIZED? WERE THEY TO BE FOOD AID?

(B) IT WAS UNCLEAR HOW THE PROPOSED SALE RELATED TO THE COMMUNITY'S COMMODITY AGREEMENT PROPOSALS IN THE MTN.

(C) HOW FAR WOULD THE DEAL CONSTRAIN THE EC? FOR EXAMPLE, WOULD IT LIMIT THE EC'S ABILITY TO PROVIDE EMERGENCY SUPPLIES TO INDIA?

(D) AS PROPOSED THIS DEAL WOULD BE DONE ON COMMISSION AUTHORITY. THIS WOULD BE STRAINING THE INSTITUTIONAL AUTHORITY OF THE COMMISSION RELATIVE TO THE MEMBER STATES.

(E) HOW WOULD THE DEAL RELATE TO OVERALL COMMISSION POLICY? THAT IS, WOULD THE COMMISSION JUST MAKE SUCH ARRANGEMENTS WITH EGYPT, OR WITH A LIMITED GROUP OF LDCS, OR WITH ANYONE? HOW WOULD THE EGYPTIAN, OR FUTURE DEALS, AFFECT THIRD COUNTRY SUPPLIERS?

(F) WHAT WOULD THE DEAL MEAN IN TERMS OF THE LONG-TERM PRODUCTION CYCLE IN THE EC? WOULD IT HAVE THE EFFECT OF PROLONGING HIGH COST GRAIN PRODUCTION?

4. FIELDING SAID THAT AS A RESULT OF THIS SORT OF QUESTIONING (APPARENTLY VOICED PRINCIPALLY BY SOAMES), THE COMMISSION DECIDED THAT THE GRAIN ASPECT OF THE AGREEMENT SHOULD BE LIMITED TO ONE YEAR; THAT THE DEAL SHOULD BE SUBMITTED TO THE MEMBER STATES FOR APPROVAL; AND THAT THE WIDER IMPLICATIONS OF THIS DEAL, AND OF LONG-TERM SUPPLY CONTRACTS IN GENERAL, SHOULD BE EXAMINED. THUS, THE PROPOSED AGREEMENT WILL BE SUBMITTED TO THE ARTICLE 113 COMMITTEE AND THEN TO THE COUNCIL OF MINISTERS IN LATE SEPTEMBER OR LIMITED OFFICIAL USE
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OCTOBER. INDEPENDENTLY, THE COMMISSION WILL BE PREPARING A STUDY OF LONG-TERM CONTRACTS. (FIELDING IS THE DG-I REPRESENTATIVE ON THE COMMITTEE PERFORMING THIS STUDY.)

5. FIELDING NOTED THAT THE MAIN POINT ADVANCED BY ADVOCATES OF THIS AND SIMILAR CONTRACTS IS THAT THEY WOULD PROMOTE ORDERLY WORLD MARKETS. CRITICS REPLY THAT SUCH ARRANGEMENTS WOULD REDUCE THE COMMUNITY'S MARGIN OF MANEUVER AND HAVE IMPLICATIONS WHICH ARE YET UNDETERMINED.

6. FIELDING DID NOT TAKE THE LINE THAT LARDINOIS VOICED IN HIS PRESS CONFERENCE, THAT THE DEAL WAS A FAIT ACCOMPLI. HE FELT IT POSSIBLE THAT CERTAIN MEMBER STATES WOULD, WHEN CONSULTED IN THE AUTUMN, OPPOSE THE DEAL.

7. FIELDING ALSO GAVE US SOME MORE INFORMATION ON THE CREDIT ASEPCT OF THE ARRANGEMENT. HE SAID THAT THE EGYPTIAN MINISTER OF SUPPLY, ABDUL RAHMAN EL-CHAZLI, TOLD THE COMMISSION, WHEN HE VISITED BRUSSELS IN MID-JULY, THAT EGYPT REQUIRED EITHER 24 OR 36 MONTHS CREDIT. EL-CHAZLI SAID THAT THESE WERE THE NORMAL US PL480 TERMS (SIC) AND ALSO SAID THAT FRENCH EXPORTERS HAD BEEN PROVIDING 24 OR 36 MONTHS CREDIT. FIELDING SAYS THAT THE COMMISSION HAS NOT YET DECIDED ON CREDIT TERMS. THE COMMISSION PREFERS VERY SHORT-TERM CREDIT, AND ITS INFORMATION IS (A) THAT THE MAXIMUM NORMAL CCC CREDIT TERM IS 12 MONTHS, (B) WHILE THERE IS PROVISION FOR UP TO 3 YEARS CCC CREDIT TO MEET FOREIGN COMPETITION OR ESTABLISH A COMMERCIAL MARKET, THIS CAN BE PROVIDED ONLY WITH APPROVAL OF ALL AGENCIES. FIELDING SAYS THAT THE FRENCH ALSO DENY THAT THEY HAVE GIVEN LONG-TERM CREDIT ON GRAINS SALES.

8. COMMENT: WOULD THE DEPARTMENT WISH US TO PASS ANY INFORMATION OR VIEWS TO THE COMMISSION REGARDING CREDIT TERMS AND/OR CORRECT COMMISSION'S MISUNDERSTANDING RE PL 480 TERMS? ALSO, ANY VIEWS WE SHOULD PASS TO FIELDING ON EGYPTIAN ARRANGEMENT WOULD BE APPRECIATED.MORRIS

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